Health Research Institute

Regulatory Insight
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At a glance:

Ten states are seeking to change eligibility standards for Medicaid by instituting community engagement components, requiring beneficiaries to maintain or seek regular employment, enroll in an educational program or perform community service in order to continue to receive benefits.

HRI's analysis of state waivers found potentially millions of beneficiaries and billions of dollars associated with these requirements.

Medicaid work requirements could affect millions of beneficiaries and billions in spending

New community engagement waivers could impact approximately 1.7 million Medicaid beneficiaries in 10 states, about half of the beneficiaries in those states, according to an analysis by PwC's Health Research Institute (HRI). Section 1115 waivers, which require some beneficiaries to work or otherwise engage in some kind of defined activity for a specified number of hours per week or month, are being approved by CMS, which is encouraging states to develop and apply for them. The waivers could lead to reductions in Medicaid populations, with implications for hospitals and health systems serving high proportions of patients covered by Medicaid.

So far, three states–Kentucky, Indiana and Arkansas–have received approval from CMS for their community engagement waivers. Seven other states have applied. HRI estimates that the populations impacted by the waivers represent nearly $8 billion in annual medical expenditures (see Figure 1).

Figure 1: On average, community engagement waivers could affect almost half of impacted Medicaid recipients and medical expenditures for Medicaid in these states

State	Impacted medical expenditures for Medicaid†	Estimated medical expenditures affected by community engagement requirement		Impacted Medicaid population estimate†	Estimated Medicaid population affected by community engagement requirement	
		Spending	Percent		Number	Percent
Arizona	$1,466,738,517	$663,642,855	45.25%	398,519	180,315	45.25%
Arkansas*	$1,130,953,161	$519,670,795	45.95%	272,000	124,983	45.95%
Indiana*	$1,835,419,685	$817,346,782	44.53%	438,604	195,319	44.53%
Kansas	$1,778,334,267	$920,071,839	51.74%	308,181	159,446	51.74%
Kentucky*	$5,617,480,308	$2,547,761,728	45.35%	1,259,250	571,122	45.35%
Maine*	$1,402,121,409	$624,359,331	44.53%	238,221	106,079	44.53%
Mississippi	$2,939,925,655	$1,309,068,866	44.53%	580,445	258,456	44.53%
New Hampshire*	$333,956,648	$154,118,354	46.15%	51,924	23,963	46.15%
Utah	$154,323,039	$71,212,362	46.14%	32,073	14,800	46.14%
Wisconsin	$724,820,701	$334,406,274	46.14%	148,962	68,726	46.14%
Total	$17,384,073,390	$7,961,659,185	46.03%	3,728,179	1,703,209	46.03%

† Represents beneficiaries potentially included under the state's 1115 waiver, not the entire Medicaid population

** Estimates for Medicaid expansion states may be inflated due to the number of Medicaid-eligible persons in families where a household member is working*

Source: PwC Health Research Institute analysis of state waiver applications and approvals and legislation and data from the 2010 US Census

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This wave of Section 1115 waivers represents a dramatic change for the 53-year-old Medicaid program and its millions of beneficiaries. In a Jan. 11 letter to state Medicaid directors, CMS Administrator Seema Verma wrote that the agency would support states seeking Section 1115 demonstration waivers to "test incentives that make participation in work or other community engagement a requirement for continued Medicaid eligibility or coverage for certain adult Medicaid beneficiaries." The rationale laid out in Verma's letter was that these activities would "promote better mental, physical, and emotional health" and help families "rise out of poverty and attain independence."

As of April 6, 10 states have submitted waiver applications to CMS with community engagement requirements of at least 20 hours per week for some beneficiaries, an analysis by HRI found. Besides Kentucky, Indiana and Arkansas, Arizona, Kansas, Maine, Mississippi, New Hampshire, Utah and Wisconsin have applied. Utah plans to seek additional permission to institute community engagement requirements for a proposed Medicaid expansion waiver. Virginia, Alabama, Alaska and Minnesota have indicated interest as well (Figure 2).

Healthcare providers serving patients from these states could experience a steady increase in uninsured patients if they lose Medicaid coverage due to their inability to meet the new requirements. This could create increased risk for providers serving significant populations of Medicaid patients from these states. Many of the states requesting waivers also have rural hospital systems heavily dependent on Medicaid, struggling with low margins. Some states, such as Kentucky, have counties with rates of unemployment higher than the national average, which could make finding consistent work challenging.

Take, for example, Kentucky's Magoffin County, where the unemployment rate (not seasonally adjusted) was 15.2 percent in February, according to the US Bureau of Labor Statistics. Magoffin County's nearly 13,000 residents suffer higher rates of poverty, obesity, premature death, asthma, diabetes, hypertension, deaths from cancer and serious dental issues than Kentucky residents overall, according to data collected by the Foundation for a Healthy Kentucky. About half of Magoffin County residents are Medicaid beneficiaries, according to the foundation. Meeting waiver requirements could prove to be problematic for residents, even as the need for medical, dental and behavioral care remains high.

An HRI analysis of the 10 waiver applications found that the proposed community engagement programs largely resemble each other. All define community engagement requirements in terms of hours of activity per week or month. Qualifying activities include work, seeking

Community engagement waivers require employment or educational enrollment for eligibility, with exemptions varying from state to state

			Waiver approved	Waiver approved							
		AZ	AR	IN	KS	KY	ME	MS	NH	UT	WI
Requirements	**Program name**	AZ AHCCCS Works	Arkansas Works	Gateway to Work	KanCare 2.0	Kentucky HEALTH	MaineCare	Medicaid Workforce Training Initiative	Health Protection Program	1115 PCN Demo. Waiver	BadgerCare Reform
	Age	19 – 54	19 – 49	19 – 59	"adult" – 64	19 – 64	19 – 64	19 – 64	18 – 49	"adult" – 59	19 – 49
	Employed	20 hrs/week	80 hrs/month	Minimum varies	20 hrs/week	20 hrs/week	20 hrs/week	20 hrs/week	20 hrs/week	30 hrs/week	80 hrs/month
	Education enrollment	Yes	High school, Higher ed, GED	High school, Higher ed, GED	High school, Higher ed, GED	80 hrs/month	At least half-time	At least half-time	High school, Higher ed, GED	At least half-time	At least half-time
	Lifetime cap	Five years	-	-	36 months	-	Three month limit over 36 months*	-	-	60 months for adults without dependents	48 month limit for childless adults*
Exemptions	**Pregnancy**	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
	Native American	Yes	Yes	-	-	-	-	Yes	-	Yes	-
	Physically or mentally unable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	In substance abuse program	-	Yes	Yes	-	-	Yes	-	Yes	Yes – Alcoholics Anonymous does not count	Yes

** Beneficiaries can fail to meet other requirements for up to this time limit and still maintain eligibility; Time limit is cumulative*

Source: PwC Health Research Institute analysis of state waiver applications and approvals and legislation **pwc.com/hri**

employment or enrollment in a high school, GED, vocational, educational or two- to four-year higher education program.

Most community engagement programs would allow for community service or volunteer hours to count toward the requirement, though waivers for New Hampshire, Utah and Wisconsin do not specifically permit it. Half of the waiver programs would permit job training in place of employment. New Hampshire would allow participants to refurbish public housing. Indiana and Kansas consider hours spent in English as a second language courses as qualifying.

Five states—Arizona, Kansas, Maine, Utah and Wisconsin—would add lifetime coverage limits to benefits. Arizona's application proposes a cap on coverage after five years. Utah's waiver program would place a 60-month lifetime limit on adults without dependent children, though it exempts American Indians and Alaskan Natives. It also would cap the number of beneficiaries without dependent children at 25,000 enrollees.

While all states seeking community engagement waivers exempt some groups of beneficiaries, exemptions vary state to state. Under all of the community engagement waiver programs, the frail, elderly and beneficiaries determined to be otherwise physically or mentally unable to fulfill the requirements would still be eligible to receive benefits.

All waiver applications also exempt caretakers and people with dependents, though Indiana and Alaska require that the care for a family member with a disability. Pregnant women would be exempt in all states except Utah. Native American and Alaskan Native beneficiaries are exempt in Arkansas, and would be in Mississippi and Utah if their applications are approved.

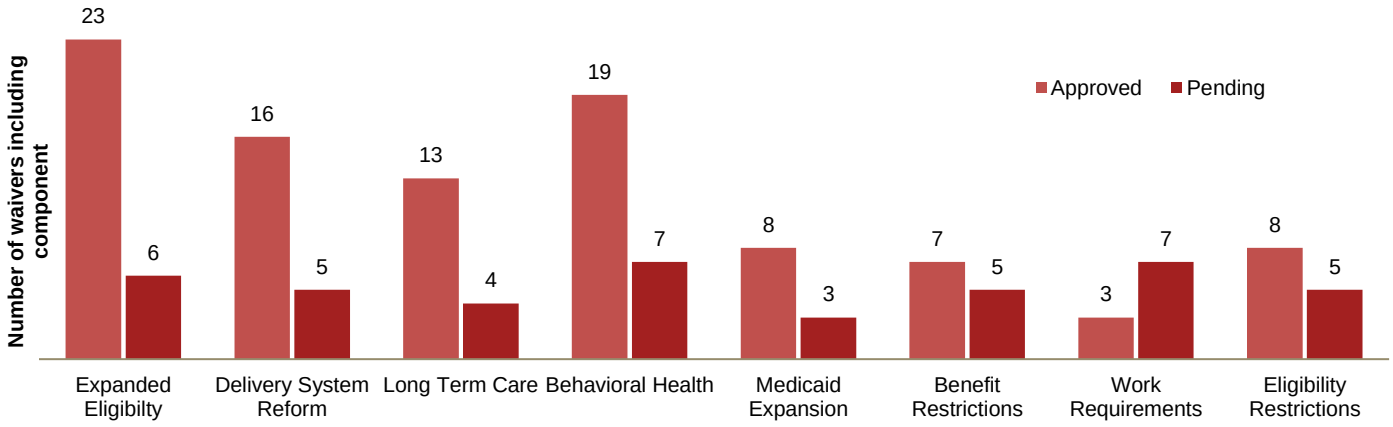
Beneficiaries in substance abuse treatment programs would be granted an exemption in six states. Beneficiaries receiving supplemental income would be exempt in Kansas, Maine, Mississippi, Virginia and Wisconsin. Exemptions would be granted to beneficiaries receiving treatment for chronic illnesses, such as HIV or cancer, in Kansas, Mississippi and New Hampshire. Arizona would exempt former foster youth up to age 26, victims of domestic violence and individuals affected by natural disasters.

Community engagement requirements as a component of Section 1115 waivers mark a departure from the policies of the Obama administration, which favored waivers expanding coverage and eligibility. Under President Donald Trump's administration, Section 1115 waivers have been more likely to limit benefits or make changes to eligibility.

One notable exception comes from Section 1115 behavioral health waiver applications in which states, coping with the ongoing opioid crisis, have sought to streamline treatment for substance abuse disorders or provide better coverage for residential treatment, crisis stabilization and withdrawal management services (see Figure 3).

A lawsuit filed in federal court in January by 16 Kentucky residents alleges CMS violated federal law in authorizing the state's community engagement waiver. The complaint alleges that the Trump administration is unlawfully using the Section 1115 waivers to "comprehensively transform" Medicaid, "bypassing congressional restrictions, overturning a half century of administrative practice, and threatening irreparable harm to the health and welfare of the poorest and most vulnerable in our country."

Pending Medicaid 1115 waivers favor benefit and eligibility restrictions, behavioral health initiatives and work requirements



Source: PwC Health Research Institute analysis of data from the Centers for Medicare and Medicaid Services

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Courts have held that work requirements were impermissible not because of the requirements themselves but because the states implementing them could not adequately explain how they promoted the objectives of Medicaid. So far, a wide variety of advocacy organizations have voiced opposition to community engagement waivers.

Requiring people to work in order to receive benefits is not new. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act added work requirements to welfare, now known as Temporary Assistance for Needy Families. Similarly, the Supplemental Nutrition Assistance Program—formerly referred to as food stamps—time-limits aid for able-bodied adults who do not work. A Congressional Research Service report examined how work requirements in both programs translated to participation and found modest effects, with some suggestion that work requirements may have played a role in the declining share of eligible families receiving benefits.

States are just beginning to estimate the cost of implementing these programs. In his annual budget request, Kentucky Gov. Matt Bevin requested $185.5 million in additional state and federal funds for the current fiscal year to implement the state's waiver program.

An analysis from the Virginia Department of Planning and Budget estimated that adding community engagement requirements would cost the state at least $10 million in the first year of implementation and another $26 million in the second year, with a combined cost in state and federal dollars approaching $100 million. In her Jan. 11 letter to state Medicaid directors announcing the agency's support for community engagement programs, CMS Administrator Verma wrote that federal funds could not be used to help states pay for job training or other employment services.

Implications

Managing requirements means developing new operational and technical skills. With new requirements comes key questions about how states will devise systems to evaluate eligibility as well as what Medicaid managed care organizations (MCOs) need to do to confirm eligibility. While the initial burden will fall to the state, MCOs will be responsible for ensuring internal systems and processes for evaluating eligibility requirements are met and coordinated with the state. MCOs should use the information they already have on consumer health to build the necessary bridges to ensure continued, steady operations.

The new requirements could dramatically increase churn. New coverage policies increase the likelihood of consumers moving in and out of Medicaid programs as eligibility changes. The shifting nature of seek to actively engage with beneficiaries and partner organizations to ensure smooth transitions, continued coverage and reliable budgeting. Providers should prepare for risks to Medicaid revenue, particularly in Maine and Utah where waivers would eliminate hospitals' presumptive eligibility option for patients in immediate need, potentially causing a dip in services provided to Medicaid beneficiaries.

Providers should prepare for disruptions caused by consumers' uncertainties over coverage. Creating new verification systems could result in several disconnects as consumers seek care. Interrupted treatment due to beneficiaries losing coverage, legitimately or erroneously, can affect consumers' ability to seek care, raising the risk to providers that uncompensated care costs will increase. Such concerns have borne out in the past; Kentucky's experience with a new technology system designed to manage benefits proved challenging for consumers and officials for a period of time.

Methodology

To determine the impact of community engagement requirements, HRI reviewed each Section 1115 waiver application, documenting each state's requirements to fulfill community engagement responsibilities, qualifications for exemptions and proposed populations. HRI used data from the Medical Expenditure Panel Survey (MEPS) and the 2010 US Census to create a representative national population profile used to estimate the prevalence of population attributes mentioned in community engagement waivers. The attributes include full or part-time employment, identification as frail or elderly, student enrollment status and a number of other features. HRI applied the population profile to each state's proposed, impacted population and determined the number of residents who would not fall into an exclusionary category. HRI then sharpened its final count of potentially impacted residents through a series of assumptions; first, that the number of Medicaid recipients eligible under the community engagement requirements was essentially equal to the number who could not be; second, that Native American populations were equally likely to enroll in Medicaid as the state population as a whole, and third, that average medical expenditures per resident are equivalent regardless of state of residence.